

**BOARD OF WATERWORKS AND
ELECTRIC LIGHT AND POWER PLANT TRUSTEES - ATLANTIC, IOWA
D/B/A ATLANTIC MUNICIPAL UTILITIES**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2011 AND 2010

ATLANTIC MUNICIPAL UTILITIES

Contents

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2
MANAGEMENT'S DISCUSSION AND ANALYSIS		4
	<u>Electric Department</u>	<u>Water Department</u>
FINANCIAL STATEMENTS:		
Statements of net assets	5	9
Statements of income and changes in net assets	6	10
Statements of cash flows	7	11
Notes to financial statements	13	13
REQUIRED SUPPLEMENTARY INFORMATION:		
Budgetary Comparison Schedule	31	31
OTHER SUPPLEMENTARY INFORMATION:		
Schedule supporting statements of net assets:		
Revenue bonds/notes	32	--
Schedules supporting statements of income:		
Operating revenue	33	33
Operating expenses	34	36
Comparative information:		
Comparative statements of income	38	40
Comparative summaries of service distributed and billed	39	41
Net income available for debt service	42	--
COMMENTS AND RECOMMENDATIONS:		
Independent Auditor's Report on Internal Control		
Over Financial Reporting and on Compliance etc.	43	43
Schedule of Findings	45	45

ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2011

<u>Trustees</u>	<u>Term Expires</u>
Lawrence E. Turner, Chairperson	April, 2013
Keith C. Stork, Vice-Chairperson	April, 2015
Frank W. Greiner	April, 2015
Sharon L. Winchell	April, 2017
Joyce A. Jensen	April, 2017
 <u>Management Personnel</u>	
General Manager Allen J. Bonderman	
Comptroller Steve J. Tjepkes	
Director of Electric Operations Gregory J. Smith	
Director of Water Operations Jon H. Martens	

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the accompanying statements of net assets of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of December 31, 2011 and 2010, and the related statements of income and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Municipal Utilities (Electric Department and Water Department) as of December 31, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 2, 2012 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Board of Trustees
Atlantic Municipal Utilities

The management's discussion and analysis and the budgetary comparison schedule on pages 4 through 4e and 31 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The other supplementary information (shown on pages 32 through 42) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bronewald Bell, Kuhn + Co. P.C.

Atlantic, Iowa
March 2, 2012



Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2011 and 2010

This section of the Utility's annual Financial Statements presents an analysis of the Utility's financial performance during the calendar year ended December 31, 2011. This information is presented in conjunction with the audited basic financial statements, which follow this section. The Utility is organized into two operating departments, electric and water. This discussion and analysis not only points out the highlights of each department, but also reports and discusses highlights in combined form.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2011

The Utility's combined net assets increased by \$0.13 million, or 0.50%, from \$25.83 million to \$25.96 million. The Electric Department's net assets decreased by \$290,087, or 1.3%, from \$22.13 million to \$21.84 million. The Water Department's net assets increased by \$422,865, or 11.4%, from \$3.705 million to \$4.128 million.

Combined revenues decreased by \$0.216 million or 2.4%. Electric Department revenues decreased by \$0.264 million, or 3.3%, from \$8.06 million to \$7.80 million. Water Department revenues increased by \$47,664, or 4.4%, from \$1.091 million to \$1.138 million.

Long-term debt (see Table 1) of the two departments decreased. Total combined debt decreased from \$7.781 million in 2010, to \$7.276 million in 2011. Electric Department debt was reduced by \$505,000, from \$6.85 million to \$6.35 million. Water Department debt remained level at \$0.93 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements of the Utility report information utilizing generally accepted accounting practices for electric and water utilities. In general, these practices follow the Federal Energy Regulatory Commission's (FERC) prescribed Uniform System of Accounts for the Electric Dept. Practices for the Water Dept. follow suggested guidelines from the National Association of Regulatory Commissioners (NARUC). There are three major reports for each Department.

The *Statements of Net Assets* include all of each Department's assets and liabilities, and provide information about the nature and amounts of investments in resources, assets, and the obligations to Utility creditors. They also provide the basis for making a variety of financial assessments about the Utility's financial position. Supporting schedules of the Department's debt are included in the "Other Supplementary Information" section of the report.

The *Statements of Income and Changes in Net Assets* provide information about each Department's revenues and expenses. This report measures the success of the Department's operations. It can be used to determine whether or not the Department has successfully recovered all its costs through its rates, fees and other forms of revenues. It also provides a measure of the Department's, and Utility's, profitability and creditworthiness. Details of the Department's revenues and expenses are included in the "Other Supplementary Information" section of the report. This statement also provides information about the equity, or net assets, of the Department.

The *Statements of Cash Flows* provide information about each Department's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes from operations, investments, and financing activities. It indicates where the Department's cash came from, how it was used, and the change in cash balances from the previous fiscal year.

Additional information regarding AMU's financial and operating status are contained in the *Required Supplementary Information*, and *Other Supplementary Information*. These sections of the report provide information including comparisons of budgeted versus actual expenditures, details regarding long-term debt outstanding, and a number of supporting schedules.

The *Comments and Recommendations* section of the report comments on AMU's internal control and compliance with various state statutes.

FINANCIAL ANALYSIS OF THE UTILITY

A summary of the Utility's combined Net Assets is presented in *Table 1, Condensed Statement of Net Assets* below. The summary combines the net assets of both the electric and water departments, and also indicates each Department's assets separately.

(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
			Dollar	Percent			Dollar	Percent			Dollar	Percent
	2011	2010	Change	Change	2011	2010	Change	Change	2011	2010	Change	Change
Current and Other Assets	\$7,114.3	\$7,527.6	(\$413.3)	(5.5%)	\$1,421.8	\$1,493.8	(\$72.0)	(4.8%)	\$8,536.1	\$9,021.4	(\$485.3)	(5.4%)
Capital Assets	\$22,558.9	\$22,954.1	(\$395.2)	(1.7%)	\$4,291.4	\$3,730.8	\$560.6	15.0%	\$26,850.3	\$26,684.9	\$165.4	0.6%
Total Assets	\$29,673.2	\$30,481.7	(\$808.5)	(2.7%)	\$5,713.2	\$5,224.6	\$488.6	9.4%	\$35,386.4	\$35,706.3	(\$319.9)	(0.9%)
Long-Term Debt	\$6,345.0	\$6,850.0	(\$505.0)	(7.4%)	\$930.8	\$930.8	\$0	0%	\$7,275.8	\$7,780.8	(\$505.0)	(6.5%)
Other Liabilities	\$1,491.8	\$1,505.2	(\$13.4)	(0.9%)	\$654.7	\$589.0	\$65.7	11.2%	\$2,146.5	\$2,094.2	\$52.3	2.5%
Total Liabilities	\$7,836.8	\$8,355.2	(\$518.4)	(6.2%)	\$1,585.5	\$1,519.8	\$65.7	4.3%	\$9,422.3	\$9,875.0	(\$452.7)	(4.6%)
Total Net Assets	\$21,836.4	\$22,126.5	(\$290.1)	(1.3%)	\$4,127.7	\$3,704.8	\$422.9	11.4%	\$25,964.1	\$25,831.3	\$132.8	0.5%
Total Liabilities & Net Assets	\$29,673.2	\$30,481.7	(\$808.5)	(2.7%)	\$5,713.2	\$5,224.6	\$488.6	9.4%	\$35,386.4	\$35,706.3	(\$319.9)	(0.9%)

Electric Department

In terms of capital expenditures, 2011 was an uneventful year for AMU's electric department. Our capital improvements were fairly limited in nature, following several years of intense capital investment for pollution control equipment at the Walter Scott Unit 3 coal generating station, and major additions to AMU's Spruce Substation.

Due to retirements being larger than the cost of additions, total capital Assets decreased by \$395,137, or 2.2%. All of AMU's capital additions were funded with cash from general operating reserves, and no additional debt was issued.

Special Purpose Funds, Current and Other Assets, and Deferred Expenses decreased by \$413,262, or 4.8%, due to use of cash for capital improvements. Total Assets decreased from \$30.48 million to \$29.67 million, or 2.7%.

Total long-term debt of the Electric Department decreased from \$6,850,000 to \$6,345,000, a total of \$505,000. Current and Other Liabilities decreased from \$1,505,176 to \$1,491,864, a change of \$13,312, or 0.9%.

Operating Revenue for the Electric Department decreased by \$175,856, or 2.2%. Energy sales to retail customers increased by 857,994 KWH, or 0.8%. Revenues from those sales increased by \$205,630, or 3.3%. Wholesale sales to other utilities again declined, decreasing from \$1,593,293 to \$1,211,807, a decrease of 23.9%. The value of energy in the wholesale markets is still extremely low, due to the national and global economic recession.

Operating Expenses for the Electric Department decreased, from \$8,340,897 the prior year, to \$8,086,568 in 2011. Reductions in expenses were due to several factors, including some reduction in transmission expenses as compared to transmission revenues, as well as reductions in almost every other cost category.

A change in accounting was also made during 2011, to reflect the cost of in-lieu of tax payments to the City of Atlantic. These payments represent the cost of providing electric service to city-owned buildings, as well as for street and highway lighting costs. In the past, the cost of providing these services was treated as a transfer of equity from AMU to the City, shown only on the Statements of Net Assets. Now, AMU's accounting treats these payments as in-lieu-of-tax payments, and they are included as operating expenses. The audited numbers shown in this report adjusted the 2010 costs, so that the two years can be appropriately compared to one another.

The Electric Department experienced a Net Loss of \$290,087, compared to a net loss of \$280,444 in 2010, an increased loss of \$9,643. The primary reason for both years' losses was the change in accounting mentioned above. The in-lieu-of-tax payments expensed were \$322,335, and \$339,233, for 2011 and 2010, respectively.

Total Assets of the electric utility decreased by \$808,399 to \$29.673 million.

Water Department

AMU had two significant new capital projects during 2011. The first was the addition of a backwash capture and retention system at our water treatment plant. Backwash water is pumped with a new lift station, rather than discharged into a nearby stream. An aboveground holding tank, now stores all backwash water, which is slowly discharged into the city's sewer system. AMU also assisted Cass County by managing a project which extended water and sewer mains from Highway 83 to and along Glacier Road, to provide utility services to a business park in that area. The asset value of the new water mains is booked by AMU, offset by the contribution-in-aid-of-construction from the county.

Capital Assets increased by \$560,620, from \$3.731 million to \$4.291 million. All capital asset additions were funded from cash on hand. (The Board also had opted in 2010 to defer debt service payments on internal loans from the Electric Department in 2011, to ensure adequate cash was available for the backwash detention project.)

Special Purpose Funds, Current and Other Assets and Deferred Costs decreased by \$71,983, to \$1,421,822. Total Assets increased from \$5.22 million to \$5.71 million, or 9.4%.

Total long-term debt of the Water Department remained level at \$930,855. Current and Other Liabilities increased from \$588,932 to \$654,704, a change of \$65,722, or 11.2%, mostly attributable to moneys collected on behalf of the City's sewer utility, and increased accounts payable to suppliers at year-end.

All cash requirements of the Water Department were provided from cash flows, and no new debt was issued during the reporting period. In December, 2009, AMU's Electric Department called the outstanding water revenue bonds, and is providing an internal loan to the Water Department on the same terms. Due to a need for cash for significant costs related to water tower maintenance planned for 2012, principal payments that would have been due December 1, 2011 were deferred by the AMU Board. Interest payments will continue to be made on June 1 and December 1 of each year, and principal payments will resume once the water department's cash flow is adequate, and cash needs can be met through normal cash flow of the water utility.

Operating Revenue for the Water Department increased by 3.9%, with revenues totaling \$1,145,074 in 2011, as compared to \$1,102,274 in 2010. Sales of water increased by 4.17%, with a total of 246.9 million gallons billed.

Net Income for the year was a gain of \$140,258, as opposed to income of \$66,818 in 2010. The improved performance was due primarily to increased sales, and some reduction in depreciation expense. Other expenses increased by less than one percent. Net Assets of the water utility increased by \$422,865, to \$4.13 million. (Note: Includes Contributions In Aid Of Construction and amortizations of said contributions).

A summary of the Utility's combined Operating Revenues, Expenses, Net Income and Net Assets is presented in *Table 2 Condensed Statements of Income and Changes in Net Assets*, below. The summary combines the operating data of both the electric and water departments, and also summarizes each Department's operations separately.

Table 2 Condensed Statements of Income and Changes in Net Assets										
(In thousands of dollars)	Electric Dept.			Water Dept.			Combined			
	2011	2010	Dollar Change	2011	2010	Dollar Change	2011	2010	Dollar Change	Percent Change
Operating Revenues	\$8,027.1	\$8,288.5	(\$261.4)	\$1,165.0	\$1,112.1	\$52.9	\$9,192.1	\$9,400.6	(\$208.5)	(2.2%)
Other Income (Deductions)	(\$230.6)	(\$228.0)	(2.6)	(\$26.6)	(\$21.4)	(5.2)	(\$257.2)	(\$249.4)	(\$7.8)	3.1%
Total Revenue	\$7,796.5	\$8,060.5	(\$264.0)	\$1,138.4	\$1,090.7	\$47.7	\$8,934.9	\$9,151.2	(216.3)	(2.4%)
Depreciation	\$1,325.4	\$1,366.4	(\$41.0)	\$191.7	\$223.1	(\$31.4)	\$1,517.1	\$1,589.5	(\$72.4)	(4.6%)
Other Operating Expenses	\$6,761.2	\$6,974.5	(\$213.3)	\$806.4	\$800.8	\$5.6	\$7,567.6	\$7,775.3	(\$207.7)	(2.7%)
Total Operating Expense	\$8,086.6	\$8,340.9	(\$254.3)	\$998.1	\$1,023.9	(\$25.8)	\$9,084.7	\$9,364.8	(\$280.1)	(3.0%)
Net Income	(\$290.1)	(\$280.4)	(\$9.7)	\$140.3	\$66.8	\$73.5	(\$149.8)	(\$213.6)	\$63.8	(29.9%)
Net Assets										
Beginning Balance	\$22,126.4	\$22,406.8	(\$280.4)	\$3,704.8	\$3,631.5	\$73.3	\$25,831.2	\$26,038.3	(\$207.1)	(0.8%)
Net Income	(\$290.1)	(\$280.4)	(\$9.7)	\$140.3	\$66.8	\$73.5	(\$149.8)	(\$213.6)	\$63.8	
Plus: *Adjustments				\$282.6	\$6.5	\$276.1	\$282.6	\$6.5	\$276.1	
Ending Balance	\$21,836.3	\$22,126.4	(\$290.1)	\$4,127.7	\$3,704.8	\$422.9	\$25,964.0	\$25,831.2	\$132.8	0.5%

*NOTE: "Adjustments" to Water Dept. Net Assets includes Contributions in Aid of Construction, and current amortizations of same.

OUTLOOK FOR THE FUTURE

2011 was yet another year of economic recession in the United States. The negative effect of the economy on AMU's financial performance continues to be significant, as the value of surplus electric energy continues to decline. Any revenues received from sales of energy on the wholesale market benefits AMU's retail customers, so as this source of revenue declines, more of AMU's costs must be included in retail rates.

Rates for electric service were increased effective with all billings issued on or after November 1, 2011, primarily in response to significant increases in the delivered cost of coal for the Walter Scott Unit 3 power plant, as well as a number of operating expenses.

AMU recognizes the importance of maintaining rates that are as low as possible, while ensuring that revenues are adequate to cover all expense and debt repayment. We continue to identify potential savings, and have taken steps to reduce expenses in areas that do not result in reduced service to customers.

2011 brought an opportunity for AMU to begin employing technology that has the potential to level off, if not reduce, some costs in the future. With the assistance of a federal grant obtained by the Iowa Association of Municipal Utilities (the state trade association for municipal electric, gas and water utilities), AMU is embarking on a program called "2 Degrees 2 Save". The goal of the program is to reduce peak demand for electricity during the few hours a year that loads are the highest, which results in lower power supply and transmission costs. The program includes provision of "smart" thermostats, which can be remotely set by AMU to a setting two degrees higher, reducing air conditioning use during the peak demand periods.

The program also will include the installation of advanced electric metering, which will be installed initially on every rural customer on the AMU system. These meters can be read remotely, reducing costs for monthly meter readings. More importantly, though, the meters communicate back to AMU when a power outage occurs, as well as store important information about blinks, voltage levels, and other service-related information. We believe that we can provide much better customer service utilizing this technology, particularly when major outage events like an ice storm or severe thunderstorms occur.

2 Degrees 2 Save will also introduce a concept called Direct Load Control, or "load management". Electric water heaters are one of the few devices that can store electric energy in the form of hot water. Water heaters can be disconnected for several hours at a time during peaks, reducing load without affecting the average customers. AMU will begin working with customers in the rural areas to install these devices and use them to control loads. In the same respect, central air conditioners can be shut off for brief periods of time to reduce load. The controlled period is short enough that the temperature in the customer premises only varies by 1 to 2 degrees. This is very similar to what the smart thermostats do, but for much lower installed costs.

Projections for the future include additional significant increases in the cost of delivered coal, and a strong likelihood of higher costs related to environmental regulations that are not yet in place. Undoubtedly, rates for all forms of energy will be increasing the next few years, and AMU plans to continue to emphasize energy conservation measures such as high-efficiency heating and cooling systems and appliances, and expansion of the 2 Degrees 2 Save programs. Using energy wisely will help both AMU and its customers in the years to come.



AMU's water utility had a rather busy year, and is making arrangements for painting of, and minor upgrades to, both of the water towers. The short-term plan is to take care of this need, after which the focus will be on paying off all debt. Once out of debt, AMU will be taking a hard look at replacing a significant number of water mains around the system.

Generally, the financial position of the water utility is good, as compared to other comparable-sized water systems in Iowa. Adequate reserves exist to provide for minor emergencies and other unanticipated events. Management and the Board are committed to maintaining rates adequate to meet the cash requirements of the utility, while meeting the needs of the Atlantic community. The near-term outlook is for stable rates, with increases likely comparable to the rate of inflation.

Contacting Financial Management

This financial report is designed to provide AMU's ratepayers and creditors with a general overview of Atlantic Municipal Utilities' finances and operations. If you have questions about this report, contact AMU's Comptroller at AMU, P.O. Box 517; 15 West Third Street; Atlantic, Iowa 50022; or e-mail stjepkes@amu1.net ; or call 712-243-1395.

The General Manager can be contacted at the same address and phone, or by e-mail at abonderman@amu1.net.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Net Assets
December 31,

ASSETS

	<u>2011</u>	<u>2010</u>
Utility Plant :		
Depreciable capital assets	\$ 20,308,478	\$ 20,019,763
Non-depreciable capital assets	<u>2,250,445</u>	<u>2,934,297</u>
Total utility plant	22,558,923	22,954,060
Special Purpose Funds:		
Revenue bond funds	1,460,931	1,450,549
Board designated funds	<u>1,719,262</u>	<u>1,733,351</u>
Total special purpose funds	3,180,193	3,183,900
Current Assets:		
Cash	892,070	398,894
Operating and capital reserves	181,834	1,002,638
Receivables, less allowance for doubtful accounts (\$28,000 in 2011, \$30,000 in 2010)	506,352	613,336
Other receivables	16,276	93,766
Inventory	846,276	793,562
Prepaid expenses	40,725	37,874
Current due from Water Department	<u>205,800</u>	<u>207,570</u>
Total current assets	2,689,333	3,147,640
Other Assets:		
Due from Water Department:		
Non-interest bearing note	495,855	495,855
Interest bearing note	435,000	435,000
Electric project investments	253,726	194,152
Deferred costs	<u>60,187</u>	<u>71,009</u>
Total other assets	1,244,768	1,196,016
	<u>\$ 29,673,217</u>	<u>\$ 30,481,616</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Long-Term Debt, less current maturities	\$ 6,345,000	\$ 6,850,000
Current Liabilities:		
Current maturities of long-term debt	505,000	485,000
Accounts payable	434,640	482,442
Accrued employee compensation	142,000	138,000
Accrued payroll taxes and withholdings	11,233	12,932
Accrued property taxes	128,000	114,000
Other accrued taxes	8,979	11,038
Accrued interest	68,790	73,216
Total current liabilities	<u>1,298,642</u>	<u>1,316,628</u>
Other Liabilities:		
Consumer deposits	80,222	74,548
Reserve for employees' retirement	113,000	114,000
Total other liabilities	<u>193,222</u>	<u>188,548</u>
Total liabilities	7,836,864	8,355,176
Net Assets:		
Restricted - expendable	1,460,931	1,450,549
Invested in capital assets net of related debt	15,767,188	15,656,024
Unrestricted	4,608,234	5,019,867
Total net assets	<u>21,836,353</u>	<u>22,126,440</u>
	<u>\$ 29,673,217</u>	<u>\$ 30,481,616</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Income and Changes in Net Assets
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Retail electricity sales	\$ 6,129,174	\$ 5,906,646
Services provided to the City	322,335	339,233
Sales to other utilities	<u>1,211,807</u>	<u>1,593,293</u>
Total sale of electricity	7,663,316	7,839,172
Other operating revenue	<u>363,792</u>	<u>449,308</u>
Total operating revenue	8,027,108	8,288,480
Operating Expenses:		
Electric production	2,209,031	2,214,369
Purchased power	1,505,266	1,509,082
Transmission	802,689	935,161
Distribution	705,016	755,268
Administrative and accounting	1,539,214	1,560,647
Provision for depreciation	<u>1,325,352</u>	<u>1,366,370</u>
Total operating expenses	8,086,568	8,340,897
Loss from Operations	(59,460)	(52,417)
Other Income and (Deductions):		
Income from investments	56,473	87,336
Interest expense on revenue bonds	(279,586)	(297,048)
Gain (loss) on disposal of equipment	5,207	(4,555)
Other interest expense	(1,899)	(2,193)
Amortization of bond issue costs	(10,822)	(11,567)
Other deductions, net	<u>(230,627)</u>	<u>(228,027)</u>
Net Loss	(290,087)	(280,444)
Net Assets, Beginning of Year	<u>22,126,440</u>	<u>22,406,884</u>
Net Assets, End of Year	<u>\$ 21,836,353</u>	<u>\$ 22,126,440</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Cash Flows
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 7,850,700	\$ 7,803,001
Cash paid to suppliers	(5,583,332)	(5,790,571)
Cash paid to employees	(1,235,191)	(1,164,427)
Other operating revenue	<u>360,714</u>	<u>447,523</u>
Net cash provided by operating activities	1,392,891	1,295,526
Cash flows from noncapital financing activities:		
Consumer deposits, net	5,674	6,061
Interest paid	<u>(1,899)</u>	<u>(2,193)</u>
Net cash provided by noncapital financing activities	3,775	3,868
Cash flows from capital and related financing activities:		
Principal payments	(485,000)	(465,000)
Interest paid on revenue bonds	(284,012)	(301,233)
Capital expenditures	(1,032,638)	(2,572,552)
Proceeds from disposal of equipment	<u>10,407</u>	<u>--</u>
Net cash used in capital and related financing activities	(1,791,243)	(3,338,785)
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	(1,830,300)	(2,292,763)
Proceeds	2,144,428	1,120,947
Operating and capital reserves		
Acquisitions	(600,150)	(2,906,080)
Proceeds	1,420,954	4,890,576
Electric project investments	4,999	3,046
Income from investments	<u>58,243</u>	<u>87,336</u>
Net cash provided by investing activities	1,198,174	903,062
Net increase (decrease) in cash	803,597	(1,136,329)
Cash, beginning of year	<u>1,136,054</u>	<u>2,272,383</u>
Cash, end of year	<u>\$ 1,939,651</u>	<u>\$ 1,136,054</u>

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ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 892,070	\$ 398,894
Cash in special purpose funds	<u>1,047,581</u>	<u>737,160</u>
Total cash	<u>\$ 1,939,651</u>	<u>\$ 1,136,054</u>
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$(59,460)	\$(52,417)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Provision for depreciation	1,325,352	1,366,370
Materials returned to stock	527	785
Uncollectible accounts	11,443	12,102
Reserve for employees' retirement	(1,000)	17,000
Change in assets and liabilities		
Receivables	173,031	(20,577)
Inventory	(52,714)	(58,552)
Prepaid expenses	(2,851)	3,089
Accounts payable, trade	(15,679)	26,189
Accrued employee compensation	4,000	15,000
Accrued payroll taxes and withholdings	(1,699)	885
Accrued property taxes	14,000	(13,000)
Other accrued taxes	(2,059)	(1,348)
Total adjustments	<u>1,452,351</u>	<u>1,347,943</u>
Net cash provided by operating activities	<u>\$ 1,392,891</u>	<u>\$ 1,295,526</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Net Assets
December 31,

ASSETS

	<u>2011</u>	<u>2010</u>
Utility Plant:		
Depreciable capital assets	\$ 4,235,566	\$ 3,654,937
Non-depreciable capital assets	<u>55,837</u>	<u>75,846</u>
Total utility plant	4,291,403	3,730,783
Special Purpose Funds:		
Board designated funds	779,691	967,363
Memorial fund	<u>3,150</u>	<u>3,145</u>
Total special purpose funds	782,841	970,508
Current Assets:		
Cash	303,067	235,283
Receivables, less allowance for doubtful accounts (\$9,000 in 2011, \$10,000 in 2010)	254,231	200,450
Materials and supplies inventory	71,395	75,724
Prepaid expenses	<u>9,552</u>	<u>9,549</u>
Total current assets	638,245	521,006
Deferred Costs	<u>736</u>	<u>2,291</u>
	<u>\$ 5,713,225</u>	<u>\$ 5,224,588</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Long-Term Debt, less current maturities:		
Due to Electric Department	\$ 930,855	\$ 930,855
Current Liabilities:		
Current due to Electric Department	205,800	207,570
Accounts payable:		
Trade	35,254	14,721
Due to City - sewer	287,760	246,451
Accrued employee compensation	48,000	47,000
Accrued payroll taxes and withholdings	2,369	2,858
Other accrued taxes	4,016	4,137
Total current liabilities	<u>583,199</u>	<u>522,737</u>
Other Liabilities:		
Consumer deposits	17,505	17,195
Reserve for employees' retirement	54,000	49,000
Total other liabilities	<u>71,505</u>	<u>66,195</u>
Total liabilities	1,585,559	1,519,787
Net Assets (Deficits):		
Contributions in aid of construction	1,052,959	788,774
Restricted - expendable	3,150	3,145
Invested in capital assets, net of related debt	3,132,468	2,590,569
Unrestricted	(60,911)	322,313
Total net assets	<u>4,127,666</u>	<u>3,704,801</u>
	<u>\$ 5,713,225</u>	<u>\$ 5,224,588</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Income and Changes in Net Assets
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Sale of water:		
Residential	\$ 675,843	\$ 668,463
Commercial	377,272	348,899
Services provided to the City	<u>91,959</u>	<u>84,912</u>
Total sale of water	1,145,074	1,102,274
Other operating revenue	<u>19,912</u>	<u>9,822</u>
Total operating revenue	1,164,986	1,112,096
Operating Expenses:		
Source of supply	34,042	36,512
Pumping	45,564	41,672
Water treatment	104,200	115,933
Distribution	214,800	215,102
Administrative and accounting	407,790	391,631
Provision for depreciation	<u>191,762</u>	<u>223,084</u>
Total operating expenses	998,158	1,023,934
Income from Operations	166,828	88,162
Other Income and (Deductions):		
Income from investments	4,759	12,514
Interest expense on note and bonds	(29,064)	(30,833)
Other interest expense	(565)	(699)
Amortization of bond issue costs	(1,555)	(2,326)
Loss on disposal of equipment	(145)	--
Other deductions, net	<u>(26,570)</u>	<u>(21,344)</u>
Net Income	140,258	66,818
Contributions in Aid of Construction	<u>282,607</u>	<u>6,465</u>
Increase in Net Assets	422,865	73,283
Net Assets, Beginning of Year	<u>3,704,801</u>	<u>3,631,518</u>
Net Assets, End of Year	<u>\$ 4,127,666</u>	<u>\$ 3,704,801</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Cash Flows
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 1,090,235	\$ 1,050,215
Cash paid to suppliers	(355,609)	(292,801)
Cash paid to employees	(396,240)	(426,764)
Other operating revenue	<u>19,045</u>	<u>9,113</u>
Net cash provided by operating activities	357,431	339,763
Cash flows from noncapital financing activities:		
Consumer deposits, net	310	880
Interest paid	<u>(565)</u>	<u>(699)</u>
Net cash provided by (used in) noncapital financing activities	(255)	181
Cash flows from capital and related financing activities:		
Interest paid on revenue bonds	(30,834)	(30,833)
Capital expenditures	(733,591)	(46,574)
Contributions in aid of construction	<u>282,607</u>	<u>6,465</u>
Net cash used in capital and related financing activities	(481,818)	(70,942)
Cash flows from investing activities:		
Special purpose fund investments:		
Acquisitions	(700,100)	(300,107)
Proceeds	626,768	495,041
Income from investments	<u>4,759</u>	<u>12,514</u>
Net cash provided by (used in) investing activities	<u>(68,573)</u>	<u>207,448</u>
Net increase (decrease) in cash	(193,215)	476,450
Cash, beginning of year	<u>777,432</u>	<u>300,982</u>
Cash, end of year	<u>\$ 584,217</u>	<u>\$ 777,432</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 303,067	\$ 235,283
Cash in special purpose funds	<u>281,150</u>	<u>542,149</u>
Total cash	<u>\$ 584,217</u>	<u>\$ 777,432</u>

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ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 166,828	\$ 88,162
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for depreciation	191,762	223,084
Uncollectible accounts	3,356	4,894
Reserve for employees' retirement	5,000	6,000
Change in assets and liabilities		
Receivables	(57,137)	(46,002)
Materials and supplies inventory	4,329	282
Prepaid expenses	(3)	(1,347)
Accounts payable:		
Trade	1,597	2,009
Due to City - sewer	41,309	61,677
Accrued employee compensation	1,000	1,000
Accrued payroll taxes and withholdings	(489)	208
Other accrued taxes	(121)	(204)
Total adjustments	<u>190,603</u>	<u>251,601</u>
Net cash provided by operating activities	<u>\$ 357,431</u>	<u>\$ 339,763</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Board of Waterworks and Electric Light and Power Plant Trustees - Atlantic, Iowa operates under the name, Atlantic Municipal Utilities (Utilities or Utility). It is made up of two enterprise funds (departments) and is a component unit of the City of Atlantic, Iowa (City). It was instituted to provide water and electric service to residents of the City and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

The financial positions and operations of the two departments are accounted for and reported separately in these financial statements. The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Measurement Focus and Basis of Accounting

The Utilities maintain their financial records on the accrual basis, which is the basis for the financial statements. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses for the Utilities include the cost of sales and services, administrative expense and depreciation on capital assets.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

4. Utility Plant and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

Water contributions in aid of construction represents the actual cost of property contributed to the water utility and nonrefundable payments received from consumers which are used to partially offset the cost of the construction of additional plant. The cost of depreciation on plant acquired through this process is included in depreciation expense. The balance in water contributions in aid of construction is amortized over a period equal to the estimated useful life of the related contributed asset.

5. Accounts Receivable and Revenue Recognition

Billings for electric and water revenues are rendered monthly on a cyclical basis. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

6. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies and a weighted average basis for fuel.

7. Investments

Investments are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the reported sales price and current exchange rates at year end. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other income when earned.

8. Deferred Costs

Costs related to the issuance of debt and special projects are recorded as deferred costs when incurred. Such costs are amortized over the term of the outstanding debt or the estimated useful life in the case of special projects.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The memorial fund is used to accumulate the unused portion of funds restricted by donors for a specific purpose. The electric revenue bond funds, as discussed in Note D, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

10. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

11. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Atlantic city limits. The property taxes are recorded as of the date they become a liability.

12. Cash Equivalents

For purposes of the statement of cash flows, the Atlantic Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

13. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs. The Utilities had no major construction projects covering more than one year, therefore, no interest was capitalized during 2011 or 2010.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

14. Net Assets

Net assets of the Utilities are classified in four components. *Contributions in aid of construction* consist of the unamortized cost of contributions from outside parties for construction purposes. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Utilities, including amounts deposited with trustees as required by revenue bond indentures, discussed in Notes H and I. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt*, *restricted*, or *contributions in aid of construction*.

NOTE B - TRANSACTIONS WITH CITY OF ATLANTIC, IOWA

The Utilities provide electric and water services to the City in exchange for a partial payment. However, any payment received must be contributed back to the City at the time of receipt. Metered charges plus any excess costs are recorded as services to the City and included in administrative and accounting expenses as a franchise fee on these financial statements.

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Atlantic. This service is provided for a minimal charge to the City.

Following is a summary of activity between the Utilities and City during the year and amounts due to or receivable from the City at year end:

<u>Electric Department</u>	<u>2011</u>	<u>2010</u>
Metered Charges to City	\$ 253,679	\$ 260,233
Additional Costs Incurred	<u>68,656</u>	<u>78,999</u>
Payment in Lieu of Tax	<u>\$ 322,335</u>	<u>\$ 339,232</u>
<u>Water Department</u>	<u>2011</u>	<u>2010</u>
Metered Charges to City	\$ 14,879	\$ 12,473
Additional Costs Incurred	<u>77,080</u>	<u>72,439</u>
Payment in Lieu of Tax	<u>\$ 91,959</u>	<u>\$ 84,912</u>
Sewer Fees Collected for City	<u>\$ 1,417,688</u>	<u>\$ 1,129,204</u>
Charge to City for Sewer Billing Service	<u>\$ 3,719</u>	<u>\$ 3,724</u>
Account Payable to City	<u>\$ 287,760</u>	<u>\$ 246,451</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE C - TRANSACTIONS BETWEEN ELECTRIC AND WATER DEPARTMENTS

Certain administrative costs are split between the Electric and Water Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric and Water Departments at December 31:

	<u>2011</u>	<u>2010</u>
Electric sales to Water	\$ <u>30,982</u>	\$ <u>28,181</u>
Water sales to Electric	\$ <u>420</u>	\$ <u>401</u>
Interest income (Electric) and expense (Water) during the year	\$ <u>29,064</u>	\$ <u>30,833</u>
Non-interest bearing note due to Electric from Water Department	\$ <u>495,855</u>	\$ <u>495,855</u>
Interest bearing note due to Electric from Water Department	\$ <u>640,000</u>	\$ <u>640,000</u>
Less current portion	<u>205,000</u>	<u>205,000</u>
	<u>\$ 435,000</u>	<u>\$ 435,000</u>
Current portion of interest bearing note due to Electric from Water Department	\$ <u>205,000</u>	\$ <u>205,000</u>
Interest due to Electric from Water Department	<u>800</u>	<u>2,570</u>
Current due to Electric from Water Department	<u>\$ 205,800</u>	<u>\$ 207,570</u>

The Electric Department non-interest bearing note receivable from the Water Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2022. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

See Note I for details of the interest bearing note due to Electric from Water.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated net assets are available for the following purposes:

Electric Department

	<u>2011</u>	<u>2010</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,160,931	\$ 1,150,549
Capital improvements	<u>300,000</u>	<u>300,000</u>
Total restricted	<u>\$ 1,460,931</u>	<u>\$ 1,450,549</u>
Board Designated for:		
Unforeseen disasters	\$ 350,000	\$ 350,000
Production plant repairs and capital expenditures	1,000,000	1,000,000
Equipment replacement	150,000	150,000
Employee retirement	150,625	150,633
Funding of bond requirements	<u>68,637</u>	<u>82,718</u>
Total board designated	<u>\$ 1,719,262</u>	<u>\$ 1,733,351</u>

Water Department

	<u>2011</u>	<u>2010</u>
Restricted by donor for well field improvements	<u>\$ 3,150</u>	<u>\$ 3,145</u>
Board Designated for:		
System improvements	\$ 719,691	\$ 927,363
Employee retirement	<u>60,000</u>	<u>40,000</u>
Total board designated	<u>\$ 779,691</u>	<u>\$ 967,363</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Electric Department's investments at December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Invested Funds:		
Government Agencies	\$ 774,785	\$ 3,435,624
Certificates of Deposit	1,530,000	--
Other Interest Bearing Accounts	1,047,581	737,160
Interest Receivable	<u>9,661</u>	<u>13,754</u>
Total Investments	<u>\$ 3,362,027</u>	<u>\$ 4,186,538</u>
Special Purpose Funds:		
Restricted	\$ 1,460,931	\$ 1,450,549
Board Designated	<u>1,719,262</u>	<u>1,733,351</u>
Total Special Purpose Funds	<u>3,180,193</u>	<u>3,183,900</u>
Operating and Capital Reserves	<u>181,834</u>	<u>1,002,638</u>
Total Investments	<u>\$ 3,362,027</u>	<u>\$ 4,186,538</u>

The Water Department's investments at December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Invested Funds:		
Government Agencies	\$ --	\$ 425,462
Certificates of Deposit	500,000	--
Other Interest Bearing Accounts	281,150	542,149
Interest Receivable	<u>1,691</u>	<u>2,897</u>
Total Investments	<u>\$ 782,841</u>	<u>\$ 970,508</u>
Special Purpose Funds:		
Restricted	\$ 3,150	\$ 3,145
Board Designated	<u>779,691</u>	<u>967,363</u>
Total Special Purpose Funds	<u>\$ 782,841</u>	<u>\$ 970,508</u>

The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE F - FAIR VALUE MEASUREMENTS

The Utilities' investments are reported at fair value in the accompanying statements of net assets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Utilities use appropriate valuation techniques based on the available inputs to measure the fair value of their investments. When available, the Utilities measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs were available for all investments at December 31, 2011 and 2010.

Level 1 Fair Value Measurements

The fair value of debt securities is based on quoted prices of the government agencies held by the Utilities at year-end. Level 1 fair values for debt securities using quoted prices on active markets at December 31 are as follows:

<u>Electric Department</u>	<u>2011</u>	<u>2010</u>
Government Agency Securities	<u>\$ 774,785</u>	<u>\$ 3,435,624</u>
<u>Water Department</u>		
Government Agency Securities	<u>\$ --</u>	<u>\$ 425,462</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2011 and 2010 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 45,590,146	\$ 1,619,794	\$ 427,197	\$ 46,782,743
Depreciation	<u>25,570,383</u>	<u>1,325,352</u>	<u>421,470</u>	<u>26,474,265</u>
Depreciable Capital Assets, Net	<u>\$ 20,019,763</u>	<u>\$ 294,442</u>	<u>\$ 5,727</u>	<u>\$ 20,308,478</u>
Construction in Progress	\$ 2,294,327	\$ 1,000,515	\$ 1,684,367	\$ 1,610,475
Land and Land Rights	<u>639,970</u>	<u>--</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 2,934,297</u>	<u>\$ 1,000,515</u>	<u>\$ 1,684,367</u>	<u>\$ 2,250,445</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 38,849,447	\$ 6,822,486	\$ 81,787	\$ 45,590,146
Depreciation	<u>24,280,460</u>	<u>1,366,370</u>	<u>76,447</u>	<u>25,570,383</u>
Depreciable Capital Assets, Net	<u>\$ 14,568,987</u>	<u>\$ 5,456,116</u>	<u>\$ 5,340</u>	<u>\$ 20,019,763</u>
Construction in Progress	\$ 6,576,588	\$ 2,540,225	\$ 6,822,486	\$ 2,294,327
Land and Land Rights	<u>639,970</u>	<u>--</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 7,216,558</u>	<u>\$ 2,540,225</u>	<u>\$ 6,822,486</u>	<u>\$ 2,934,297</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,665,476	\$ 772,536	\$ 10,517	\$ 9,427,495
Depreciation	<u>5,010,539</u>	<u>191,762</u>	<u>10,372</u>	<u>5,191,929</u>
Depreciable Capital Assets, Net	<u>\$ 3,654,937</u>	<u>\$ 580,774</u>	<u>\$ 145</u>	<u>\$ 4,235,566</u>
Construction in Progress	\$ 20,009	\$ 752,527	\$ 772,536	\$ --
Land and Land Rights	<u>55,837</u>	<u>--</u>	<u>--</u>	<u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 75,846</u>	<u>\$ 752,527</u>	<u>\$ 772,536</u>	<u>\$ 55,837</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,640,688	\$ 24,788	\$ --	\$ 8,665,476
Depreciation	<u>4,787,455</u>	<u>223,084</u>	<u>--</u>	<u>5,010,539</u>
Depreciable Capital Assets, Net	<u>\$ 3,853,233</u>	<u>\$ (198,296)</u>	<u>\$ --</u>	<u>\$ 3,654,937</u>
Construction in Progress	\$ --	\$ 44,797	\$ 24,788	\$ 20,009
Land and Land Rights	<u>55,837</u>	<u>--</u>	<u>--</u>	<u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 55,837</u>	<u>\$ 44,797</u>	<u>\$ 24,788</u>	<u>\$ 75,846</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2011 and 2010 follows:

	Balance 2010	Additions	Reductions	Balance 2011
2007 Capital Loan Notes	\$ 7,335,000	\$ --	\$ 485,000	\$ 6,850,000
Less Current Portion	(485,000)	(505,000)	(485,000)	(505,000)
Long-Term Debt, Net	6,850,000	(505,000)	--	6,345,000
Consumer Deposits, Net	74,548	5,674	--	80,222
Reserve for Employee Retirement	114,000	--	1,000	113,000
Total Non-Current Liabilities	<u>\$ 7,038,548</u>	<u>\$ (499,326)</u>	<u>\$ 1,000</u>	<u>\$ 6,538,222</u>
	Balance 2009	Additions	Reductions	Balance 2010
2007 Capital Loan Notes	\$ 7,800,000	\$ --	\$ 465,000	\$ 7,335,000
Less Current Portion	(465,000)	(485,000)	(465,000)	(485,000)
Long-Term Debt, Net	7,335,000	(485,000)	--	6,850,000
Consumer Deposits, Net	68,487	6,061	--	74,548
Reserve for Employee Retirement	97,000	17,000	--	114,000
Total Non-Current Liabilities	<u>\$ 7,500,487</u>	<u>\$ (461,939)</u>	<u>\$ --</u>	<u>\$ 7,038,548</u>

Series 2007 Capital Loan Notes

The 2007 Series Capital Loan Notes constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Atlantic. The notes mature in increasing amounts ranging from \$485,000 in 2010 to \$760,000 in 2022. Interest rates range from 3.70% to 4.30%. The part of these notes maturing after April 1, 2016 are subject to early redemption on or after that date.

The annual debt service on the notes is expected to require less than 59% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$778,400 and \$1,320,000, respectively.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

The resolutions of the Board of Trustees authorizing the issuance of the 2007 Electric Capital Loan Notes specify the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending December 31, 2012 through 2016 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 505,000	\$ 265,818	\$ 770,818
2013	525,000	246,631	771,631
2014	545,000	226,433	771,433
2015	570,000	205,105	775,105
2016	590,000	182,628	772,628
2017-2021	3,355,000	526,451	3,881,451
2022	<u>760,000</u>	<u>16,340</u>	<u>776,340</u>
	<u>\$ 6,850,000</u>	<u>\$ 1,669,406</u>	<u>\$ 8,519,406</u>

NOTE I - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2011 and 2010 follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>
Due to Electric Department				
Non-interest bearing note \$	495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	<u>640,000</u>	<u>--</u>	<u>--</u>	<u>640,000</u>
	1,135,855	--	--	1,135,855
Less current portion	<u>(205,000)</u>	<u>--</u>	<u>--</u>	<u>(205,000)</u>
Long-term due to Electric Department	930,855	--	--	930,855
Consumer Deposits, Net Reserve for Employees'	17,195	310	--	17,505
Retirement	<u>49,000</u>	<u>5,000</u>	<u>--</u>	<u>54,000</u>
Total Non-Current Liabilities	<u>\$ 997,050</u>	<u>\$ 5,310</u>	<u>\$ --</u>	<u>\$ 1,002,360</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE I - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

	Balance 2009	Additions	Reductions	Balance 2010
Due to Electric Department				
Non-interest bearing note \$	495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	<u>640,000</u>	<u>--</u>	<u>--</u>	<u>640,000</u>
	1,135,855	--	--	1,135,855
Less current portion	<u>(205,000)</u>	<u>--</u>	<u>--</u>	<u>(205,000)</u>
Long-term due to Electric Department	930,855	--	--	930,855
Consumer Deposits, Net	16,315	880	--	17,195
Reserve for Employees' Retirement	<u>43,000</u>	<u>6,000</u>	<u>--</u>	<u>49,000</u>
Total Non-Current Liabilities	<u>\$ 990,170</u>	<u>\$ 6,880</u>	<u>\$ --</u>	<u>\$ 997,050</u>

The non-interest bearing note payable to the Electric Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2022. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

The interest bearing note payable to the Electric Department resulted when the Electric Department paid off the Water Department Capital Loan Notes in 2009. The Utilities Board originally replaced the debt with a note from Water to Electric bearing similar (4.75% to 4.90%) interest rates, and maturing over three years. During both 2010 and 2011 the Board deferred payments on the note to the next three year period. In 2011 the Board reduced the interest rate on the Note to 1.5%. Principal and interest payments currently required on Water Department long-term debt during subsequent years are as follows:

	Principal	Interest	Total
2012	\$ 205,000	\$ 9,600	\$ 214,600
2013	220,000	6,525	226,525
2014	215,000	3,225	218,225
2022	<u>495,855</u>	<u>--</u>	<u>495,855</u>
	<u>\$ 1,135,855</u>	<u>\$ 19,350</u>	<u>\$ 1,155,205</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE J- EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN

Reserve For Employees' Retirement

Under rules adopted by the Board of Trustees, upon retirement, employees are eligible to receive payments based on accumulated but unused sick leave credits. Payments based on unused sick leave credits are also payable to a named beneficiary if a retiree dies before receiving all benefits earned.

Iowa Public Employees Retirement System

The Utilities contribute to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% (5.38% effective July 1, 2011) of their annual salary and the Utilities are required to contribute 6.95% (8.07% effective July 1, 2011) of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2011, 2010, and 2009, were approximately \$138,900, \$125,300, and \$115,500, respectively, equal to the required contributions for each year.

NOTE K - DEFERRED COMPENSATION PLAN

The Utilities sponsor a deferred compensation plan which is administered by two trustees (the General Manager and Comptroller of the Utilities) and independent contractors under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Utilities are responsible for:

- a. The accounting, reconciliations and recordkeeping associated with employees' enrollment.
- b. Withholding employee contributions through payroll deductions.
- c. Timely transfer of withheld funds to the contractor designated by the participant, for investment.
- d. Payout of the deferred compensation to qualified participants after receiving proceeds from the administrators.
- e. Withholding payroll taxes from plan payouts.
- f. Preparation of 1099's resulting from plan payouts.

The Utilities' fiduciary responsibilities include due care in selecting administrators, and indemnification of the trustees.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE K - DEFERRED COMPENSATION PLAN - Continued

The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The contractors are required to submit monthly reports on participants' accounts to the Utilities. The Utilities are liable to a participant only for mishandled employee contributions or payouts, and the related loss of income to the participants. The market values of the exclusive benefit plan assets at December 31, 2011 were approximately \$453,900.

NOTE L - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of the Walter Scott Energy Center No. 3 (WS #3) to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Atlantic is approximately 2.5% of the total costs. Periodically WS #3 shuts down production for several weeks for major maintenance and repairs. The last shutdown occurred during 2009 and the next is currently scheduled for 2015. During the alternate years when no shutdown occurs, the Electric Utility accrues an estimate of the pro rata annual expense it will incur related to this shutdown (\$100,000 total accrued at December 31, 2011 included in accounts payable). During the shutdown, the Electric Utility purchases replacement electricity on the open market.

Of the Electric Department's construction in progress, approximately \$1,303,000 represents the Utility's share of ongoing construction projects at WS #3. These projects have an estimated cost to complete of \$90,000. The Utility financed the costs of these projects through funds generated internally.

Approximately \$307,000 of the Electric Department construction in progress at December 31, 2011 consists of several ongoing local projects. The largest of these is a GPS mapping of the service lines (\$140,000). Estimated costs to complete the projects are approximately \$525,000, however, commitments have been signed on only \$25,000 of these costs. The projects will be financed through internally generated funds.

Iowa Municipal Utilities Shared Projects

Transmission Lines - The Electric Utility has joined with other Municipal Utilities in Iowa to form the Iowa Public Power Agency (IPPA). IPPA is a 28E Agreement organization which was formed to enable small Municipal Utilities in Iowa to own a share of electric transmission lines. During 2009, the Electric Utility provided approximately \$170,000 of operating and equity funding (currently accounted for as a part of other assets) for an IPPA \$3.5 million share of a transmission line project, in partnership with MidAmerican Energy. The transmission line was put into service in early 2010. During 2011, the Electric Utility provided \$60,812 of operating funding to the project. That amount, along with \$4,999 of the original investment, was returned to the Utility. The transmission line investment shown on the balance sheet was reduced by the \$4,999 during 2011. It is expected that, each year, the Electric Utility will provide similar amounts of operating funding to the project, with net proceeds of the operation returned based on its pro rata share of the operation's net income.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Wind Farm - The Electric Utility has joined with other Iowa Municipal Utilities to form the Iowa Agency for Municipal Wind (IAMWind). IAMWind is a 28E Agreement organization originally formed to enable small Municipal Utilities to develop a wind energy project for the benefit of members. Currently the project has been suspended, prior to the construction phase, as members assess the market for electricity and wind generation projects. The Electric Utility has invested \$64,573 in the project which was reported as a part of non-depreciable capital assets during 2010 and has been reclassified to Electric project investments for 2011.

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Utilities offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Utilities employees, and the retirees must pay a health insurance premium equal to that charged for current employees. There are 30 active employees and no retirees currently covered by the Plan.

Potential for Liability: The Utilities currently finances the retiree portion of this plan on a pay-as-you-go basis. A review of the Utilities' current and potential future exposure to this requirement resulted in the conclusion that no material liability exists, therefore, no liability has been recorded.

Subsequent Events

The Utilities has evaluated all subsequent events through March 2, 2012, the date the financial statements were available to be issued.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE M - ACCOUNTING CHANGE

The Utilities have elected to change the method of accounting for the cost of providing services to the City. For the year ended December 31, 2010 and prior, the cost of services to the City was reported as a contribution to the City, in the statement of changes in net assets. Beginning in 2011 (and retroactively for 2010 reporting), the cost has been reported as an operating expense, under the administrative and accounting category. The change in accounting resulted in lower net income (larger net loss) than under the previous method, however, it had no effect on the beginning or ending net assets in either year. Following is a summary of the effect of change on the individual items in the financial statements for the years ended December 31:

	2011		2010	
	Current Reporting Method	Previous Reporting Method	Current Reporting Method	Previous Reporting Method
<u>Electric Department</u>				
Administrative and accounting	\$ 1,539,214	\$ 1,216,879	\$ 1,560,647	\$ 1,238,793
Total operating expenses	\$ 8,086,568	\$ 7,764,233	\$ 8,340,897	\$ 8,019,043
Income (loss) from operations	\$ (59,460)	\$ 262,875	\$ (52,417)	\$ 269,437
Net income (loss)	\$ (290,087)	\$ 32,248	\$ (280,444)	\$ 41,410
Distribution to City	\$ --	\$ (322,335)	\$ --	\$ (321,854)
Net assets, beginning of year	\$ 22,126,440	\$ 22,126,440	\$ 22,406,884	\$ 22,406,884
Net assets, end of year	\$ 21,836,353	\$ 21,836,353	\$ 22,126,440	\$ 22,126,440
<u>Water Department</u>				
Administrative and accounting	\$ 407,790	\$ 315,831	\$ 391,631	\$ 313,485
Total operating expenses	\$ 998,158	\$ 906,199	\$ 1,023,934	\$ 945,788
Income from operations	\$ 166,828	\$ 258,787	\$ 88,162	\$ 166,308
Net income	\$ 140,258	\$ 232,217	\$ 66,818	\$ 144,964
Distribution to City	\$ --	\$ (91,959)	\$ --	\$ (78,146)
Net assets, beginning of year	\$ 3,704,801	\$ 3,704,801	\$ 3,631,518	\$ 3,631,518
Net assets, end of year	\$ 4,127,666	\$ 4,127,666	\$ 3,704,801	\$ 3,704,801

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE N - RECLASSIFICATION OF BALANCES

Certain items on the balance sheet as of December 31, 2010 have been reclassified to be comparable to the amounts reported for 2011. The reclassification had no effect on total net assets or the change in net assets for 2011.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended December 31, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments and net assets differently for financial statement and budget purposes.

	<u>Per Financial Statements</u>		<u>Budget</u>	<u>Combined</u>
	<u>Electric</u>	<u>Water</u>	<u>Adjustments</u>	<u>Utilities</u>
Revenues	\$ 8,087,986	\$ 1,169,745	\$ 282,607	\$ 9,540,338
Expenses	<u>8,378,073</u>	<u>1,029,487</u>	<u>485,000</u>	<u>9,892,560</u>
Net	(290,087)	140,258	(202,393)	(352,222)
Balance beginning of year	22,126,440	3,704,801	(17,375,939)	8,455,302
Contributions	<u>--</u>	<u>282,607</u>	<u>(282,607)</u>	<u>--</u>
Balance end of year	<u>\$ 21,836,353</u>	<u>\$ 4,127,666</u>	<u>\$(17,860,939)</u>	<u>\$ 8,103,080</u>

	<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
	<u>Basis</u>	<u>Budget</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues	\$ 9,540,338	\$ 10,026,000	\$(485,662)
Expenses	<u>9,892,560</u>	<u>11,014,500</u>	<u>1,121,940</u>
Net	(352,222)	(988,500)	636,278
Balance beginning of year	<u>8,455,302</u>	<u>8,455,302</u>	<u>--</u>
Balance end of year	<u>\$ 8,103,080</u>	<u>\$ 7,466,802</u>	<u>\$ 636,278</u>

See Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Revenue Bonds/Notes
December 31,

<u>Due Date</u>	<u>Optional Call Date</u>	<u>Interest Rate</u>	<u>2011</u>	<u>2010</u>
<u>2007 Series</u>				
April 1, 2011	--	3.65%	\$ --	\$ 485,000
April 1, 2012	--	3.70	505,000	505,000
April 1, 2013	--	3.75	525,000	525,000
April 1, 2014	--	3.80	545,000	545,000
April 1, 2015	--	3.85	570,000	570,000
April 1, 2016	--	3.90	590,000	590,000
April 1, 2017	April 1, 2016	3.95	615,000	615,000
April 1, 2018	April 1, 2016	4.05	640,000	640,000
April 1, 2019	April 1, 2016	4.15	670,000	670,000
April 1, 2020	April 1, 2016	4.20	700,000	700,000
April 1, 2021	April 1, 2016	4.25	730,000	730,000
April 1, 2022	April 1, 2016	4.30	760,000	760,000
			<u>\$ 6,850,000</u>	<u>\$ 7,335,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
Operating Revenue
Year ended December 31,

	<u>2011</u>	<u>2010</u>
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 2,049,363	\$ 2,008,513
Commercial	2,946,972	2,848,308
Rural resident and rural commercial	1,101,857	1,021,644
Interdepartmental sales	<u>30,982</u>	<u>28,181</u>
	<u>\$ 6,129,174</u>	<u>\$ 5,906,646</u>
Other Operating Revenue:		
Customer late payment charges	\$ 15,270	\$ 15,350
Service charges	14,241	11,198
Rent from electric properties	10,025	15,081
Net contract work	5,001	10,101
Transmission service	291,007	387,422
Scrap sales	10,591	7,982
Bad debts recovered	3,078	1,785
Miscellaneous	<u>14,579</u>	<u>389</u>
	<u>\$ 363,792</u>	<u>\$ 449,308</u>
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 7,413	\$ 6,360
Net contract work	9,507	2,453
Scrap sales	115	300
Bad debts recovered	867	709
Miscellaneous	<u>2,010</u>	<u>--</u>
	<u>\$ 19,912</u>	<u>\$ 9,822</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Electric Production:		
WS #3 Production:		
Operating supervision and labor	\$ 84,810	\$ 75,803
Fuel	1,385,373	1,463,955
Operating supplies and expense	216,801	178,049
Maintenance of production plant	<u>385,389</u>	<u>360,958</u>
Total WS #3 production	2,072,373	2,078,765
Atlantic Production:		
Operating supervision and labor	17,589	17,803
Fuel	13,441	18,009
Operating supplies and expense	687	1,152
Maintenance of production plant	<u>104,941</u>	<u>98,640</u>
Total Atlantic production	<u>136,658</u>	<u>135,604</u>
Total electric production	2,209,031	2,214,369
Purchased Power	1,505,266	1,509,082
Transmission Expense:		
Maintenance of transmission line and other	802,689	935,161
Distribution Expense:		
City:		
Operating supervision and labor	109,019	108,739
Line and station supplies and expense	96,349	94,515
Meter expense	36,063	33,947
Miscellaneous distribution expense	82,290	84,300
Maintenance of structures and equipment	15,709	10,984
Maintenance of lines	153,673	151,497
Maintenance of line transformers	16,834	15,234
Maintenance of street lighting and signal systems	31,454	43,109
Maintenance of meters	<u>4,623</u>	<u>11,665</u>
Total city distribution expense	546,014	553,990
Rural:		
Operating supervision and labor	47,049	49,825
Line and station supplies and expense	364	1,000
Miscellaneous distribution expense	9,090	14,310
Maintenance of structures and equipment	11,739	29,002

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses - Continued
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of lines	\$ 78,111	\$ 99,710
Maintenance of line transformers	11,374	6,572
Maintenance of meters	<u>1,275</u>	<u>859</u>
Total rural distribution expense	<u>159,002</u>	<u>201,278</u>
Total distribution expense	705,016	755,268
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	32,199	29,057
Accounting and collecting costs	109,000	113,909
Supplies and expense	354	1,352
Uncollectible accounts	<u>11,443</u>	<u>12,102</u>
Total customer accounting	<u>152,996</u>	<u>156,420</u>
Administrative and general:		
Administrative and general salaries	66,423	67,250
Office supplies and expense	30,079	28,539
Outside service employed	20,661	23,727
Property insurance	50,347	54,734
Liability insurance and safety program costs	76,527	70,069
Employees' pension and benefits	224,269	265,900
Payment in lieu of tax	322,335	339,233
Regulatory commission expense	14,788	10,570
Internet	7,339	4,630
Energy efficiency grant/rebate program	68,222	67,560
Miscellaneous general expense	104,968	109,595
Maintenance of general plant	42,325	44,606
Payroll taxes	236,959	225,941
Property taxes	<u>134,853</u>	<u>106,758</u>
Total administrative and general	<u>1,400,095</u>	<u>1,419,112</u>
Administrative adjustments	55,823	50,039
Less administrative expense transferred	<u>(69,700)</u>	<u>(64,924)</u>
Net administrative and general	<u>1,386,218</u>	<u>1,404,227</u>
Total administrative and accounting expense	1,539,214	1,560,647
Provision for Depreciation	<u>1,325,352</u>	<u>1,366,370</u>
Total operating expenses	<u>\$ 8,086,568</u>	<u>\$ 8,340,897</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Source of Supply Expense:		
Operating supplies and expense	\$ 9,004	\$ 8,096
Maintenance of water source	<u>25,038</u>	<u>28,416</u>
Total source of supply expense	34,042	36,512
Pumping Expense:		
Operating labor	19,629	20,073
Fuel and power pumping	18,860	16,893
Maintenance of pumping station	<u>7,075</u>	<u>4,706</u>
Total pumping expense	45,564	41,672
Water Treatment Expense:		
Operating labor	31,185	36,539
Chemicals	46,160	49,305
Operating supplies and expense	13,377	14,818
Maintenance of water treatment plant	<u>13,478</u>	<u>15,271</u>
Total water treatment expense	104,200	115,933
Distribution Expense:		
Operating labor	136,063	139,660
Operating supplies and expense	7,232	9,932
Maintenance of distribution reservoirs and standpipes	5,404	7,391
Maintenance of mains	61,065	51,505
Maintenance of services	188	1,493
Maintenance of meters	583	--
Maintenance of hydrants	<u>4,265</u>	<u>5,121</u>
Total distribution expense	214,800	215,102
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	16,032	15,566
Accounting and collecting labor	53,697	48,816
Supplies and expense	4,883	7,627
Uncollectible accounts	<u>3,356</u>	<u>4,894</u>
Total customer accounting	77,968	76,903

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses - Continued
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 39,786	\$ 37,728
Office supplies and other expense	15,458	14,581
Outside service employed	12,310	10,189
Property insurance	12,491	13,619
Liability insurance costs	20,027	22,205
Employees' pensions and benefits	73,097	71,956
Payment in lieu of tax	91,959	84,912
Regulatory Commission expense	1,195	1,280
Miscellaneous general expense	24,537	25,362
Transportation expense	14,026	10,356
Maintenance of general plant	3,941	3,495
Payroll taxes	<u>40,781</u>	<u>38,125</u>
Total administrative and general	349,608	333,808
Administrative adjustments	2,361	(763)
Less administrative expense transferred	<u>(22,147)</u>	<u>(18,317)</u>
Net administrative and general	<u>329,822</u>	<u>314,728</u>
Total administrative and accounting expense	407,790	391,631
Provision for Depreciation	<u>191,762</u>	<u>223,084</u>
Total operating expenses	<u>\$ 998,158</u>	<u>\$ 1,023,934</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Statements of Income
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Sale of electricity	\$ 7,663,316	\$ 7,839,172
Other operating revenue	<u>363,792</u>	<u>449,308</u>
Total operating revenue	8,027,108	8,288,480
Operating Expenses (Not Including Depreciation)	<u>6,761,216</u>	<u>6,974,527</u>
Operating Income Before Depreciation	1,265,892	1,313,953
Provision for Depreciation	<u>1,325,352</u>	<u>1,366,370</u>
Income (Loss) From Operations	(59,460)	(52,417)
Other Income and (Deductions), Net	<u>(230,627)</u>	<u>(228,027)</u>
Net Income (Loss)	<u><u>\$ (290,087)</u></u>	<u><u>\$ (280,444)</u></u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u><u>(3.61%)</u></u>	<u><u>(3.38%)</u></u>

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 7,131,217	\$ 8,389,552	\$ 7,323,641
<u>625,499</u>	<u>372,904</u>	<u>66,512</u>
7,756,716	8,762,456	7,390,153
<u>6,549,633</u>	<u>5,947,840</u>	<u>5,332,222</u>
1,207,083	2,814,616	2,057,931
<u>1,161,183</u>	<u>1,143,023</u>	<u>1,059,460</u>
45,900	1,671,593	998,471
<u>(66,284)</u>	<u>72,671</u>	<u>73,642</u>
<u>\$ (20,384)</u>	<u>\$ 1,744,264</u>	<u>\$ 1,072,113</u>
<u>(0.26%)</u>	<u>19.91%</u>	<u>14.51%</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Summaries of Electricity Distributed and Billed
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Sale of Electricity:		
Sales to consumers	\$ 6,451,509	\$ 6,245,879
Sales to other utilities	<u>1,211,807</u>	<u>1,593,293</u>
Total Electricity Sales	<u>\$ 7,663,316</u>	<u>\$ 7,839,172</u>
Kilowatt Hours:		
Generated	131,848,627	135,331,763
Purchased	44,504,000	42,567,000
Energy available	176,352,627	177,898,763
Station power/transmission loss	1,938,501	2,208,344
Available for sale	174,414,126	175,690,419
Sales and transfers to other utilities	60,866,627	62,960,863
Output to the system	113,547,499	112,729,556
Billed to consumers	108,943,490	108,085,496
Distribution loss	4,604,009	4,644,060
Distribution loss percent	4.1%	4.1%
Revenue Billed Per KWH to Consumers	5.92¢	5.78¢
Peak Hour Demand in KW	25,500	25,100
Services Provided to the City:		
Street Lighting:		
Energy	\$ 67,396	\$ 70,201
Operation and maintenance	32,333	43,740
Depreciation	<u>36,323</u>	<u>35,260</u>
	136,052	149,201
Energy for public buildings, parks and other uses	<u>186,283</u>	<u>190,032</u>
	<u>\$ 322,335</u>	<u>\$ 339,233</u>
<u>Consumer Classifications</u>		
Residential	3,264	3,254
Small Commercial	598	589
Large Commercial	34	36
Rural Residential	567	568
Rural Commercial	97	95
Area Lighting	293	289
City and Water Department	<u>89</u>	<u>90</u>
Total number of consumers	<u>4,942</u>	<u>4,921</u>

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 5,663,105	\$ 5,798,285	\$ 5,338,066
<u>1,468,112</u>	<u>2,591,267</u>	<u>1,985,575</u>
<u>\$ 7,131,217</u>	<u>\$ 8,389,552</u>	<u>\$ 7,323,641</u>
112,652,715	132,336,100	132,205,200
54,701,242	39,237,310	38,310,816
167,353,957	171,573,410	170,516,016
5,311,630	6,046,276	4,646,224
162,042,327	165,527,134	165,869,792
55,485,400	54,568,516	54,644,192
106,556,927	110,958,618	111,225,600
102,042,813	106,895,456	105,012,973
4,514,114	4,063,162	6,212,627
4.2%	3.7%	5.6%
5.55¢	5.42¢	5.08¢
25,287	25,151	24,751
\$ 67,827	\$ 71,138	\$ 64,248
33,709	31,618	29,627
<u>35,379</u>	<u>35,650</u>	<u>35,356</u>
136,915	138,406	129,231
<u>175,250</u>	<u>172,549</u>	<u>149,192</u>
<u>\$ 312,165</u>	<u>\$ 310,955</u>	<u>\$ 278,423</u>
3,260	3,259	3,232
578	573	579
39	42	43
572	569	565
93	93	89
291	290	286
<u>89</u>	<u>89</u>	<u>90</u>
<u>4,922</u>	<u>4,915</u>	<u>4,884</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Statements of Income
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Sale of water	\$ 1,145,074	\$ 1,102,274
Other operating revenue	<u>19,912</u>	<u>9,822</u>
Total operating revenue	1,164,986	1,112,096
Operating Expenses (Not Including Depreciation)	<u>806,396</u>	<u>800,850</u>
Operating Income Before Depreciation	358,590	311,246
Provision for Depreciation	<u>191,762</u>	<u>223,084</u>
Income (Loss) From Operations	166,828	88,162
Other Income (Deductions), Net	<u>(26,570)</u>	<u>(21,344)</u>
Net Income (Loss)	<u>\$ 140,258</u>	<u>\$ 66,818</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>12.04%</u>	<u>6.01%</u>

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,005,857	\$ 1,006,594	\$ 1,033,196
<u>9,314</u>	<u>17,015</u>	<u>9,635</u>
1,015,171	1,023,609	1,042,831
<u>860,733</u>	<u>793,872</u>	<u>807,327</u>
154,438	229,737	235,504
<u>227,103</u>	<u>230,056</u>	<u>224,507</u>
(72,665)	(319)	10,997
<u>(23,264)</u>	<u>(25,227)</u>	<u>(19,548)</u>
<u>\$(95,929)</u>	<u>\$(25,546)</u>	<u>\$(8,551)</u>
<u>(9.45%)</u>	<u>(2.50%)</u>	<u>(8.20%)</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Summaries of Water Pumped and Billed
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Total Revenue Billed	<u>\$ 1,145,074</u>	<u>\$ 1,102,274</u>
Gallage:		
Pumped	301,690,000	290,927,000
Billed	246,890,600	237,000,400
Total system maintenance and loss	54,799,400	53,926,600
Accounted for losses*	13,791,159	28,042,899
Unaccounted for losses	41,008,241	25,883,701
Percent unaccounted for	13.59%	8.90%
Revenue Billed Per 100 Gallons	46.4¢	46.5¢
Number of Consumers	3,341	3,337
Peak Day - Gallons Pumped	1,675,000	1,380,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 14,879	\$ 12,473
Operation and maintenance	35,253	31,799
Depreciation	<u>41,827</u>	<u>40,640</u>
	<u>\$ 91,959</u>	<u>\$ 84,912</u>

* Includes water used in flushing mains, washing streets, fire department drills, fighting fires, and estimate of known main and customer service line breaks.

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>\$ 1,005,857</u>	<u>\$ 1,006,594</u>	<u>\$ 1,033,196</u>
299,088,000	285,970,000	324,065,000
242,703,075	251,514,300	266,308,200
56,384,925	34,455,700	57,756,800
16,029,963	16,186,860	30,608,938
40,354,962	18,268,840	27,147,862
13.49%	6.39%	8.38%
41.4¢	40.0¢	38.8¢
3,338	3,332	3,311
1,530,000	1,489,000	1,485,000
\$ 11,852	\$ 9,708	\$ 9,915
39,683	40,229	39,285
<u>40,563</u>	<u>40,421</u>	<u>38,686</u>
<u>\$ 92,098</u>	<u>\$ 90,358</u>	<u>\$ 87,886</u>

ATLANTIC MUNICIPAL UTILITIES
Net Income Available For Debt Service
Year ended December 31,

	<u>2011</u>	<u>2010</u>
<u>ELECTRIC DEPARTMENT</u>		
Net Loss Per Financial Statements	\$(290,087)	\$(280,444)
Add:		
Depreciation	1,325,352	1,366,370
Interest on revenue bonds	279,586	297,048
Gain (loss) on disposal of equipment	(5,207)	4,555
Amortization	<u>10,822</u>	<u>11,567</u>
Available For Debt Service	<u>\$ 1,320,466</u>	<u>\$ 1,399,096</u>
Maximum Debt Service in Any Year	<u>\$ 778,405</u>	<u>\$ 778,405</u>
Actual Coverage	<u>170%</u>	<u>180%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the financial statements of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Atlantic Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Atlantic Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Atlantic Municipal Utilities

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Atlantic Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Atlantic Municipal Utilities' response to findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Utilities' response, we did not audit the Utilities' response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Atlantic Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald Bell, Kyhman & Co. P.C.
Atlantic, Iowa
March 2, 2012

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2011

PART I - INTERNAL CONTROL DEFICIENCIES

11-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Utilities. However, this situation is common in small municipal utilities.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. We have initiated a policy of board member approval for all investment transactions. We have also segregated cash receipts, posting, and deposit functions to the extent practicable in our size of entity.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

11-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2011 did not exceed amounts budgeted.

11-II-B Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

11-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

11-II-D Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

11-II-E Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

11-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings - Continued
Year ended December 31, 2011

PART II - REQUIRED STATUTORY REPORTING (Continued)

11-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

11-II-H Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

* * *